USAID Economic Growth Officers Training Program
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3. Trade Capacity Building

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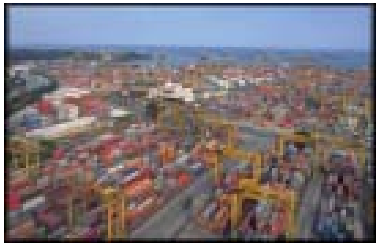
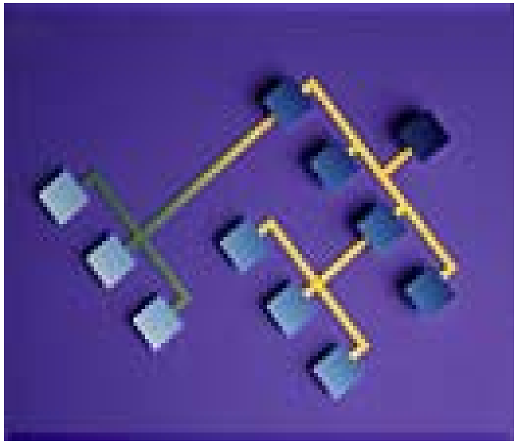


Presentation Outline

- **Why Build Capacity?**
- **What is Trade Capacity Building?**
- **Trade Capacity Building projects—lessons, trends**
- **Three examples:**
  - Customs Modernization
  - Investment Promotion
  - Sanitary and Phytosanitary



Why Build Capacity?

- **New obligations in areas traditionally thought of as “domestic regulation”**
- **“One size fits all” approach is costly**
- **Developing countries lack capacity to negotiate and implement agreements to their advantage**
  - Since 1995, scope of WTO has expanded dramatically
  - 19 of the 42 African countries have no permanent representation in Geneva
  - Most cannot understand, let alone implement their commitments
- **Developing countries face competing demands**
  - Demands of bilateral and regional trade agreements
  - New areas falling under WTO; growing complexity

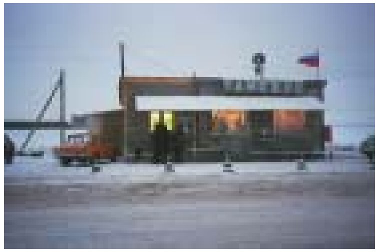
What is Trade Capacity Building?

- **Trade capacity can be thought of:**
  - –Negotiate with trading partners
  - –Understand and implement rules, policies
  - –Compete in the international market
- **Not just trade policy challenges, but trade-related capacity gaps**
- **An accepted framework**
  - –Border issues
  - –“Beyond the border” issues
  - –“Behind the border” issues

- **Need for sustainability**

Border Issues

- **Traditional focus of trade capacity building projects**
  - Trade policy formulation
  - Customs modernization
  - Trade facilitation
  - Export promotion schemes
  - Export and investment promotion
  - Capacity to participate in trade frameworks



- **Objectives**
  - Promote efficient growth by reducing tariff protection and eliminating NTBs
  - Reducing trade & investment transaction costs
  - Offset anti-export bias

"Behind the Border" Issues

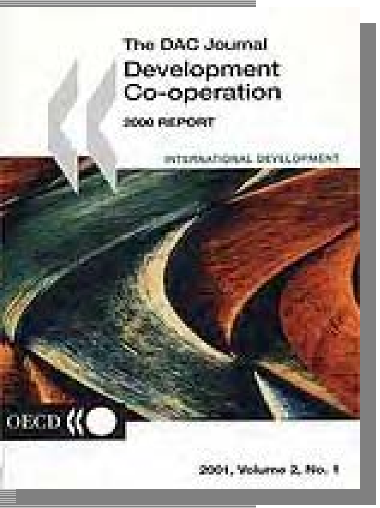
- **Focus is on complementary policies, initiatives**
  - Standards
  - Services and IPR
  - Financial sector development; Competition policy
  - Trade-Related Infrastructure and Transportation
  - Labor policies and Human resource Development
  - Traditional PSD agenda (e.g., business associations; firm-level assistance; clusters, etc)
  - Trade-related aspects of Judiciary, etc
  - ICT, digital divide, etc.

- **Primary aims**
  - Create the regulatory & institutional frameworks to ensure sufficient "supply response" to market access
  - Facilitate equity, poverty alleviation

"Beyond the Border" Issues

- **Typical activities**
  - Capacity-building of institutions linked to trade negotiation and implementation
  - Assistance to countries to negotiate positions to their advantage
  - Advocacy efforts on behalf of LDCs
  - Advocacy efforts to ensure that development and poverty alleviation is at the center of trade frameworks
- **Aim is to maximize the "pay off" of participation in regional & multilateral agreements**
  - Facilitating market access to goods & services
  - Ensure that trade rules support the development process

Lessons and Trends—OECD DAC (Development Assistance Committee)



- **Current thinking about past efforts**
  - Piecemeal approaches don't work
  - Emphasis on trade promotion organizations /export marketing was misplaced
  - Micro-economic reform is critical
  - Trade and investment efforts are inter-related and need to be integrated

New directions

  - Integrated, holistic strategies
  - Recognition of roles of all stakeholders, including civil society—creating a constituency for trade policy reform
  - Key approaches: "Mainstreaming" and Integrated Framework

"Mainstreaming" Trade

- **Trade must have a central role in economic growth and poverty reduction strategies**
- **A definition**
  - "Process and methods of identifying priority areas for trade and integrating them into an overall country development plan"
  - Trade policies and priorities must reflect the development stage of the country

- **Vehicles for mainstreaming trade**
  - Integrated Framework (Six agencies)
  - Poverty Reduction Strategy Papers (IMF/World Bank)
  - United Nations Development Assistance Framework

Integrated Framework

- **Created in 1996, recently upgraded**
- **Approach is**
  - Demand driven (meets LDC needs)
  - Ownership-oriented (LDCs own the programs)
  - Resource-efficient (donor coordination)
- **Problems have been experienced**
  - Lack of buy-in by host countries
  - Lengthy, lack of resources
  - Trade needs assessments were undertaken in isolation
- **New developments**
  - Trust Fund established (managed by UNDP)
  - IF Steering Committee formed
  - Linked to implementation of Poverty Reduction Strategy Papers

Example 1: Customs Modernization




"The average customs transaction involves 20-30 different parties; 40 documents; 200 data elements (30 of which are repeated at least 30 times); and the re-keying of 60-70% of all data at least once"

UNCTAD

"The impact of trade facilitation, such as streamlining Customs procedures,exceeds that of trade liberalization--$69 billion versus $23 billion."

APEC

Key Issues in Capacity-Building

- **Implementation of WTO/WCO rules is difficult**
  - Customs valuation—transaction value
  - Rules of origin
  - Pre-shipment inspection; simplified procedures
  - Further exacerbated by rules of RTAs
- **Assumes developed country standards**
  - Low duty environment, little incentive for corruption
  - Better IT systems, familiarity with auditing approaches
  - Technologically savvy traders
  - Professional customs service, good infrastructure
  - Well understood link with trade facilitation

- **Ancillary costs associated with implementation are substantial**

Typical Elements

- **IT systems**
  - ASYCUDA and Web-based approaches
  - EDI linkages nationally

- **Training in WTO/WCO rules**
  - Development of post release audit capacity and risk profiling
  - Implementation of transaction value approach
  - Application of simplified procedures (Kyoto Convention)
- **Institutional development**
  - Closer integration with the tax department
  - Simplification of procedures
  - Integrity and customer focus
- **Infrastructure development**

Some Examples

- **Philippines—Integrated IT system**
  - –Total costs: $27 million just for hardware/software
  - –Main lessons: Took 7 years to implement; costs were 40% higher; training was underestimated
- **Tanzania—Customs modernization**
  - –Total costs: $10 million including hardware, software, technical assistance, infrastructure
  - –Main lessons: Lack of personnel; poor capabilities in private sector; training needs were underestimated

Example 2: Investment Facilitation

- **FDI to developing countries continues to grow**
  - FDI to developing countries grew from 25 billion in 1985 to $160 billion in 2000
- **Role of FDI in poverty reduction is compelling**
  - Strong link between FDI and Trade
  - FDI stimulates trade, technology, know-how
  - FDI helps reduce financial shocks, more stable
  - FDI helps improve corporate governance, and environmental and labor standards
- **Investment promotion services are critical in certain aspects of the location decision**
- **Impact of second-tier factors are critical**

Key Issues in Capacity-Building

- **Key role of FDI in trade development is not fully appreciated (expanded factor markets)**
- **Investment Promotion Agencies frequently lack Government support and appropriate structure**
  - Cannot create a true “one-stop” shop
  - Funding and other resources are scarce
  - Weak legal basis and autonomy
- **Regulatory rather than promotional ethos**
- **Promotion approach is lacking**
  - Marketing without a good investment environment
  - Lack of targeted marketing, linked to comparative and competitive advantages
  - Poor knowledge management

Typical Elements

- **Investment policies**
  - Rationalization of incentives
  - Road Maps for streamlining procedures
  - One-stop centers
- **Institutional structure**
  - Development of legal basis for IPA
  - Strategic and corporate planning
  - Endowments for operational funding
  - Training
  - Investor tracking systems, MIS
  - Investor targeting

- **Collaboration with EPZs (Export Promotion Zones)**

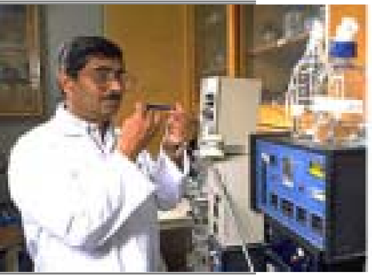
Some Examples

- **Jordan Investment Board (USAID)**
  - Key activities—strategic plan; investor targeting plan; investor tracking systems; training; use of QIZs
  - Total costs: $3 million over 36 months
  - Main lessons: Did not have full government commitment; top management of IPA was lacking; staffing politicized; lack of one-stop shop
- **Cebu Investment Promotions Center (USAID)**
  - Key activities—Investor targeting plan; investor tracking systems; training; use of EPZs
  - Total costs: About $1 million
  - Main lessons: Had full government commitment; top management of IPA excellent; lean, private sector staff; created a good "promotion product;" targeted marketing effort rather than "shot gun" approaches

Example 3: SPS

- **Developing country concerns**
  - –Standards have been set by developed countries; DCs have not participated
  - –DCs lack the expertise and resources to adopt and enforce standard requirements
  - –SPS measures could be used as hidden trade barriers
  - –Current rules are too discretionary
- **Industrial country issues**
  - –Lack of flexibility over national standards that affect public health and welfare (eg, GMF)
  - –Can restrictions be imposed based upon process and production methods?

Typical Elements



- **Typical capacity-building project elements**
  - –Assistance to upgrade and reform standards-setting regimes
  - –Establishment of efficient testing, certification and laboratory accreditation mechanisms
  - –Assistance in participating in international standards-setting bodies and for a
  - –Assistance in adoption and enforcement of rules
  - –Credit programs for producers
- **Partnership with private producer associations**

SPS Capacity Building: Bangladesh Example

- In July 1997 the EU imposed a ban on Bangladesh shrimp on the grounds that its exports did not meet European SPS standards (in this case set by the *Hazard Analysis Critical Control Point* HACCP).
- This was significant to Bangladesh since it represented a potential loss of some 2.5% of total exports, with shrimp sales to the EU falling from $US 129 million in 1997 to $US 48 million in 1998.
- More importantly it threatened some 1 million jobs (mostly women) in the industry.
- This was a serious case of SPS measure enforcement!

SPS Capacity Building: Bangladesh Example

- **Bangladesh could not really argue discrimination (not like aflatoxins in Africa's case).**
  - –They had problems with pre-processing, picking under very unhygienic conditions
  - –Problems at processing with unclean water, power outages, lack of sufficient ice, etc.
  - –Insufficient investment in up to date plant and equipment for quality control.
- **These were acknowledged as problems.**

SPS Capacity Building: Bangladesh Example

- **The Government of Bangladesh and the shrimp entrepreneurs under took measures to ensure compliance to HACCP.**
  - Special credit programs were designed and donor support was sought.
  - They estimated the cost of upgrading and training on SPS at $US 18 million.
  - The cost to maintain (yearly meet) HACCP standards was some $US 2.4 million.
  - The FAO assisted the Department of Fisheries.

SPS Capacity Building: Bangladesh Example

- **The capacity building paid off.**
- **The ban was gradually lifted as SPS standards were raised.**
- **Exports went from $US 48 million in 1998 to $US 125 million in 2000.**
- **There were knock on effects however in the global market and Bangladesh has not regained some of these markets.**

SPS Lessons from the Shrimp Case

- **SPS standards (like those of the HACCP) should be transparent and clearly communicated, such that capacity building can be performed in the right way at the lowest cost.**
  - This was not well done by the HACCP at first
  - The REU claimed it had been sending signals for sometime.
- **The LDCs must be able to articulate their financial needs, opportunity costs of a measure, so as to seek adequate funding from international AID agencies.**

Extra Case Study: Zambia and SPS

An example in Zambia

Zambia listed a series of problems they had in complying with WTO SPS standards before an SPS Special Committee on Enquiry Points:

- lack of an appropriate data base to keep track of information on important requirements;
- limited electronic facilities to transmit on time information received from other countries to interested parties;
- limited infrastructure to conduct tests and fulfill our SPS requirements;
- raising awareness among the business community has proceeded slowly partly due to lack of interest among the business community themselves and partly due to limited resources to conduct awareness campaigns
- lack of appropriate technology to adjust to and comply with SPS measures necessary to achieve the levels of SPS requirements in foreign markets.
- Lack of an ability to participate and influence the process in standard setting bodies;
- limited capacity to develop standards based on science and conduct risk assessment.

An Example in Zambia

Zambia further listed the major areas it requires financial assistance on in the area of SPS:

- upgrading infrastructure to ensure that SPS measures maintained have sufficient scientific evidence;
- raising awareness among the business community;
- enhancing the electronic transmission of notifications between institutions;
- increasing technical capacity to handle issues relating to SPS;
- providing relevant scientific and technical information;
- creation of an appropriate data base to serve the information needs of foreign inquiries and the local business community;
- creation of a website in the area of SPS.

Developing Countries Conclusions on SPS

- **SPS measures can limit market access to international trade overall for developing countries since their economies rely more heavily on agricultural and processed food exports.**
- **Developing countries have limited technology and financial resources to comply with standards.**
- **They have limited access to information preventing them from engaging in international debate.**